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CALIFORNIA STATE TREASURER PHIL ANGELIDES

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TREASURER ANGELIDES LAUDS GOVERNOR'S SIGNING OF TOUGHEST IN THE NATION LEGISLATION TO HALT STATE CONTRACTING WITH EXPATRIATE FIRMS THAT FLEE U.S. SOIL

NEW LAW WILL BAN STATE CONTRACTS FOR 'EXPATRIATE' CORPORATIONS

SACRAMENTO, CA – Treasurer Phil Angelides today lauded Governor Gray Davis for signing a bill, the toughest of its kind in the nation, to prohibit the State of California from contracting with any publicly held, runaway U.S. corporations that have "expatriated," or moved their place of incorporation – in name only – to tax havens like Bermuda and the Cayman Islands to avoid taxes and weaken shareholder rights. Passage of Senate Bill 640, authored by Senator John Burton, D-San Francisco, is a major triumph in a nationwide campaign aimed at cracking down on runaway U.S. corporations.

"This is a step in the right direction in terms of corporate responsibility. This corporate conduct is particularly unconscionable at the very time when our State is struggling to cover the costs of police, firefighters, education and mental health," said Angelides, "and at a time when our nation must shoulder the heavy responsibilities of national defense and homeland security." The Treasurer added that "these expatriate companies want the benefit of operating here but are unwilling to face up to their responsibilities. If their company catches on fire, they're not going to call the Bermuda fire department, when they need law enforcement they aren't going to call the Bermuda police and they don't rely on Bermuda schools and universities to train their California workers."

The Treasurer has been a national leader in fighting to end the practice of corporate expatriation. In July 2002, for example, Angelides banned the State's now $53.4 billion Pooled Money Investment Account (PMIA) from investing in publicly held U.S. corporations that reincorporate in offshore tax havens. He also prohibited the State Treasurer's Office from contracting with or engaging in any business dealings with expatriate U.S. companies. And as a board member of the California Public Employees' Retirement System and California State Teachers' Retirement System, the Treasurer urged both public pension funds – the nation's first and third largest – to back shareholder resolutions calling on expatriate companies such as Tyco International Ltd., Ingersoll-Rand and McDermott to reincorporate back in the United States. These efforts are part of the Treasurer's more broadly based *Power of the Purse* campaign**,** which urges institutional investors to vigorously use their market strength to advance an agenda of corporate reform.

Angelides said that “Today, there is perhaps no greater symbol of corporate irresponsibility than the practice of expatriation. It is a growing trend that has a direct, detrimental effect on shareholders. Just as important, it represents – to millions of shareholders – the type of corporate practice that has undermined the trust of Americans in the essential fairness of our financial system.”

Offshore incorporation makes it more difficult for shareholders to hold officers and directors legally accountable for malfeasance, and to collect judgments when they have been harmed. In addition, it can make it more difficult for shareholders to prevent a company from selling off a substantial portion of its assets without their approval.

“The best way to curb the practice of corporate expatriation would be to enact strong federal laws to eliminate the offshore tax loopholes or prohibit expatriate corporations from receiving federal contracts,” Angelides said. “However, Republican Congressional leaders have blocked needed reforms and states are being forced to take steps to stop this troubling practice of expatriation.”

In the absence of federal action against these companies, North Carolina has passed a new law prohibiting the state’s agencies from signing new contracts with companies that expatriate after passage of that law (SB 640 applies to all expatriate corporations even those who expatriated before passage of the bill). Legislation has been introduced in Massachusetts, Minnesota, Montana, Pennsylvania and Texas either to bar state contracts with expatriate companies or to close tax loopholes that these companies utilize.

According to the State Franchise Tax Board, California will lose an estimated $132 million over the next 10 years as a result of corporate runaways or “expatriations” that already have occurred. (As of June 30, 18 public companies have expatriated to offshore tax havens to avoid paying taxes. Included in this list are corporations like Tyco International Ltd. and Ingersoll-Rand Co. Ltd.)

If the number of corporations that expatriate continues to grow at the same rate of the past 10 years, the Franchise Tax Board estimates that California will lose an estimated $180 million in tax revenues over the next 10 years.

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